What to Keep and What to Toss: Handling the Yearly File Purge

Having a proper records retention schedule can help keep office and storage space free from clutter. While some people may have a records retention schedule that involves weekly or monthly purges others wait until the end of the year. This year, give your records retention schedule a boost with these tips on what to keep and what to toss.

Each year, you are given the perfect opportunity to clean out your household paperwork and start fresh with a new filing system – it's called tax time! Here are some steps you can take to keep your files from becoming overloaded with old and outdated record.

Records Retention Scheduling Step #1: Purge Active Files

Start with the files where you store all of your monthly bills – utility payments, credit card and bank statements, medical expenses, receipts, etc. Your active files are only intended for current paperwork. They should be emptied and their contents redistributed – either to archive storage, your permanent files, or the shredder each New Year.

Records Retention Scheduling Step #2: Gather Current Tax Records

Pull out any documents that relate to income, withholding, tax payments, charitable contributions, business expenses, and deductions. Make sure you have separate folders for storing each category of the coming year's paperwork in the "tax" section of your active files.

Records Retention Scheduling Step #3: Review Archived Tax Records

Generally speaking, you should hang onto supporting tax documents for 7 years in case of an audit – but ask your accountant if you face any special circumstances that would extend that to 10 years. Store your archived paperwork in hanging file pockets labeled with the year, contents, and destruction date. Then when you add the new year's tax records, the oldest can be shredded.

Records Retention Scheduling Step #4: Keep Permanent Files

You are required to keep tax returns forever – there is no statute of limitations on how far back the IRS can ask you to prove that you filed a return. So make sure you have these stored together, separate from the supporting documents. A few other items should also be moved from your monthly storage to a permanent file:

- receipts, warranties, and instruction manuals for major purchases
- investment statements and trade confirmations
- important correspondence and legal documents
- car and property records
- insurance policies

And of course, hard-to-replace vital records (titles, deeds, birth certificates, passports, etc.) should be placed in a fire safe or safe deposit box.

Know What To Toss/Recycle

The rest of your "everyday" paperwork has a limited shelf life. A proper records retention schedule will allow you to get rid of many things on a yearly basis because there are only a few good reasons to keep a bill or receipt after 1 year's time:

- you are trying to clear up an error or dispute with your account
- you need to return an item that you have purchased
- you are waiting for your insurance company to pay a claim

A records retention schedule only works if you follow it. If a receipt doesn't meet one of these criteria, why are you keeping it? With most bank and credit card companies, you have a limited time in which to resolve a dispute – usually 60 days. Letting a receipt linger in your files will actually make it harder to clear up a problem later. If you're keeping old statements because you "might need them someday", remember that most of these records are now available electronically any time you want them. And if you still can't convince yourself to toss them out, you can keep bank and credit card records archived for 3 years – but after that, they have to hit the road!

Following this simple records retention schedule will help you stay on top of your paperwork and lead a less stressed life.

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